



COUNCIL: 22 February 2017

Report of: Director of Housing and Inclusion and Borough Treasurer

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SUBJECT: HOUSING ACCOUNT – REVENUE AND CAPITAL PROGRAMME

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

- 1.1 To enable the Council to set its Housing Revenue Account (HRA) budget and capital investment programme for the next financial year 2017/18.

2.0 RECOMMENDATIONS

- 2.1 That the Rent and Service charges set within delegated authority, as detailed in sections 4 and 5 of the report be noted and endorsed.
- 2.2 That the comments of Tenants and Residents as set out in Appendix E of the report be considered.
- 2.3 That the HRA budget and capital investment programme be approved based on the proposals to be presented at the Council Meeting by the Housing Portfolio Holder.
- 2.4 That delegated authority be given to the Director of Housing and Inclusion to take all necessary action to implement the decisions of Council.

3.0 BACKGROUND

- 3.1 The Council must set a budget for its Housing Account before the start of each financial year, and this budget will set out the financial basis for the delivery of services. The budget that is set must enable Council and tenant priorities to be delivered but must also be affordable. In addition it should comply with best practice requirements on budget setting, and meet statutory and accounting regulations.

- 3.2 The Policy Options report to the July 2016 Council meeting identified a cumulative budget gap of £7.954m for the HRA over the next 3 years in terms of the level of spending required to deliver agreed service levels and the value of funding that was expected to be available. This was primarily as a result of a change in government approach requiring rents to be reduced by 1% per year over the 4 year period to 2020, rather than allowing rents to be increased by inflation (CPI) plus 1%.
- 3.3 At the July 2016 Council meeting, a package of budget streamlining and other measures were agreed to address this position and this will deliver savings over the 4 year period 2016-20 of £3.453m. At the October Council meeting a further package of measures was agreed that would deliver additional savings of £6.155m in the period up to 2019/20. Following these policy option reports the bottom line position for the HRA was that it would have additional funds available for investment and to deal with future financial challenges.
- 3.4 The HRA budget has been the subject of recent reports to Cabinet, Executive Overview and Scrutiny Committee and Landlord Services Committee. Tenants have also been consulted on the HRA budget position. These reports identified that there was a draft budget surplus of £820,000 in 2017/18 between the resources available and the expenditure required to deliver agreed service levels and investment plans. This surplus was primarily as a result of the policy option process delivering additional funds for investment.

4.0 RENTAL INCOME

- 4.1 The Government announced a change in its policy on Council housing rents in the Summer of 2015, which required a 1% reduction in tenant rent levels per year for the four year period from 2016/17 to 2019/20. Rents were set on this basis in 2016/17 and a further 1% reduction will be made in 2017/18.
- 4.2 The Government had announced an exception for certain categories of supported housing in 2016/17, including sheltered housing. This meant in 2016/17 sheltered housing rents were increased using the previous approach of CPI + 1% which resulted in an increase of 0.9% for 2016/17. The Government had also advised that as a one-off option, providers of sheltered housing could increase the rent charged on re-let sheltered properties by 10% and this approach was taken during 2016/17. Government have since advised that sheltered housing for elderly people will be subject to the same 1% reduction in rents per year for the remaining three years of the rent reduction policy and this is reflected in the 2017/18 budget estimates.
- 4.3 Consequently in line with our standard practice the Director of Housing and Inclusion has used her delegated authority to reduce rent levels by 1% from April 2017 for all properties.
- 4.4 Rental income is the main funding source for the Housing Account. The rent reduction means that the overall level of rent income will reduce next year, although there are a number of other factors that will also influence this position including:

- The number of properties within the Housing Stock which will be influenced by Right to Buy Council house sales (which is outside the Council's control), the number of homes built or purchased, and the number of homes demolished as part of revival and development projects
- Void levels and the time it takes to relet can have an adverse impact on income levels. It is estimated that void levels will continue at their existing 2% level into 2017/18
- The Welfare Reform agenda, including Universal Credit, will affect tenant's income and consequently their ability to pay their rents. This is likely to have a negative impact on collection rates and levels of bad debts, and consequently this is an area that will need to continue to be monitored closely to assess its impact

5.0 OTHER CHARGES

5.1 A general principle is applied to service charges that they should be calculated to ensure that they are sufficient to recover the cost of service provision. In keeping with this principle it is proposed to increase the general level of service charges next year by 2.0% (based on the September CPI rate of 1.0% plus 1.0% in line with our standard practices).

5.2 There will be a number of exceptions to this general approach including:

- An analysis of Leaseholder service charges identified that the costs of service provision were being under-recovered. In February 2016 it was agreed to implement service charge increases in a phased manner over a 3 year period to rectify this position, and 2017/18 will be the second year of this approach
- The District Heating Account is currently in surplus and consequently it is proposed to reduce the level of heating charges by 2% in 2017/18
- Garage rents will be frozen at 2016/17 levels pending the implementation of the Garage Strategy
- Council approved in October 2016 a new gardening charge of £5 per week for 26 weeks per year which is estimated to generate around £6,000 per annum. This charge has been included in the budget estimates
- Lancashire County Council have advised that the Supporting People grant previously paid to the Council (currently worth £237,000 per year) to support residents in sheltered accommodation will cease completely in March 2017. This follows a period of reductions in the level of grant received. Changes will be made to the sheltered housing support service and service charges from April 2017 to address this position, and tenants have been consulted on these proposals

6.0 REVENUE ESTIMATES AND CAPITAL INVESTMENT PROGRAMME

6.1 The base assumptions used in the HRA Business Plan and for the HRA Estimates have been previously reported to Cabinet and Executive Overview and Scrutiny Committee. The HRA revenue estimates for 2017-18 are shown in Appendix A and provide the detailed information that sets out the financial basis for how HRA service objectives will be achieved. They cover all areas of revenue expenditure and income and include changes in the base budget required to roll forward agreed service levels, such as pay and contract inflation, but do not allow for any service improvements.

6.2 The HRA estimates reflect the following factors:

- The reductions in rents and changes in service charges set out above
- The Policy Options agreed by Council in July 2016 and October 2016 have been built into the estimates
- The Government has decided not to proceed with its compulsory Pay to Stay initiative in 2017/18 so this factor has not been included in the revenue estimates
- The Government has amended its plans to charge a High Value Assets Levy to each housing authority to fund the extension of right to buy to housing associations. In this year's Autumn statement the Government advised that an extended pilot would take place in one region, yet to be determined, before being rolled out. In effect this means that the High Value Asset Levy is not expected until April 2018 at the earliest and it could be later. The value of any potential future levy is not reflected in the 2017/18 estimates
- Streamlining of operational budgets was carried out earlier in 2016/17 as part of the Policy Options process. As part of 2017/18 budget setting, budgets have again been reviewed and further savings found. These are primarily from harvesting previously reported savings by deleting posts that were being held vacant. This will not affect service delivery or existing employees.
- The budget for external interest payments has been reduced as funding requirements for the capital programme have been financed by reducing cash balances rather than taking out external loans at higher interest rates
- A technical adjustment has been made to transfer £100,000 of the voids revenue budget into capital voids as this better reflects the nature of how money will be spent in this area. This change has a neutral bottom line financial impact.

6.3 The Capital Investment Programme for the next 5 years is shown in Appendix B. This programme has been developed through the long term asset management process to ensure that sufficient investment will take place to develop and maintain the housing stock in line with agreed standards. The programme has been updated to recognise the latest available information, and details of new developments are provided in the notes to Appendix B. The programme also contains a number of other schemes that reflect Member and tenant priorities

including the Beechtrees Revival Project, and funding to enable affordable new homes to be built and / or purchased.

- 6.4 The bottom line budget position shows that there is a surplus of £820,000 available in 2017/18 after allowing for the draft revenue estimates set out in Appendix A and the draft capital investment programme set out in Appendix B.

7.0 CURRENT FINANCIAL POSITION

- 7.1 The HRA Mid Year Review projected that the budget targets for the year would be met and exceeded and that a favourable budget variance would be achieved. The latest third quarter monitoring has confirmed this position primarily as a result of the active management of staffing vacancies generating a favourable budget variance on employee costs and because there have no calls on the central contingency budget. Budgets are being controlled effectively and this puts the HRA in a strong position for dealing with its future financial challenges.

- 7.2 In accordance with best practice the levels of HRA balances and reserves have been reviewed during the budget process to ensure that they are currently sufficient and that they will remain adequate over the medium term. One change is proposed in terms of formally creating a new Repairs Reserve using funding that was carried forward from the 2015/16 Outturn position as agreed by Council in July 2016. The proposed level of this reserve has been set at £250,000, and the balance of funding carried forward of £432,000 has been used to top up the Budget and Efficiency Savings Reserve, which is available to support the HRAs overall financial position. A draft reserves policy reflecting this position is attached at Appendix C.

8.0 BUDGET PROPOSALS

- 8.1 In addition to the roll over budget required to continue to meet agreed service levels it is also important to consider new budget issues and areas for development. Appendix D comprises a list of budget issues that Officers have identified and that should be considered as part of the budget process. Members will need to carefully consider those options, and any others that emerge through the budget process, and determine which proposals to include in the final budget to meet service objectives.

- 8.2 The views of tenants and residents have been considered through meeting with the tenant scrutiny group and reviewing the proposed HRA revenue and capital budgets as well as the list of new budget issues. Details of their comments are provided in Appendix E. Members are asked to consider these details when determining their final budget position.

- 8.3 The Portfolio Holder for Housing has been given delegated authority to submit proposals for consideration at the Council meeting to enable the budget and capital programme to be set. It is anticipated that a set of budget papers will be circulated at the Council meeting to enable this to be achieved.

9.0 SUSTAINABILITY IMPLICATIONS / COMMUNITY STRATEGY

9.1 The Council with its Tenants wants to ensure that the future business plan allows properties to be brought up to a reasonable standard and that appropriate investment can be made at the appropriate time. Business plan modelling enables a well informed investment plan to be developed in keeping with the requirements of an effective asset management strategy. The community strategy has highlighted that local people should receive good quality homes for a fair and appropriate rent, and these issues are considered through the business plan process.

10.0 RISK ASSESSMENT

10.1 The formal consideration and reporting of the budget estimates is part of the overall budgetary management and control framework that is designed to minimise the financial risks facing the Council. This process is resource intensive for both Members and Officers but ensures that a robust and achievable budget is set.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

There is a direct impact on members of the public, employees, elected members and / or stakeholders. Therefore an Equality Impact Assessment is required. A formal equality impact assessment is attached as an Appendix to this report, the results of which have been taken into account in the Recommendations contained within this report

Appendices

Appendix A – HRA Revenue Estimates
Appendix B - Capital Investment Plan
Appendix C – Reserves Policy
Appendix D - Budget Issues
Appendix E – Tenant Views on Budget Proposals
Appendix F – Equality Impact Assessment